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TIPS FOR PRACTITIONERS

For the past year, tax section and private companies practice section (PCPS) members have had access to the Institute's fee-based tax information phone service (TIPS) in a pilot program. In the future, the service will be available to all AICPA members.

TIPS offers two types of service: general assistance with everyday tax issues provided by AICPA staff, and specialized assistance with complex, industry-specific situations provided through a referral network of PCPS and tax section members. Users of the service are often surprised at the level of assistance Institute staff provides, and have found that even questions that appear simple on the surface can have tax ramifications which aren't obvious.

One call, for example, concerned a series of IRA distributions (prior to age 59½) which the owner/beneficiary withdrew for personal use and then rolled over within a sixty-day period. There were no prior distributions from the IRA. None of these distributions was subjected to withholding. The question involved whether this activity subjected the owner/beneficiary to income taxes (Sec.61) and/or an excise tax (Sec.72(t)(1)).

AICPA staff discussed the rules under Sec.408(d) and the related rollover provisions with the practitioner. The conversation revealed that each distribution was subject to withholding under Sec.3405(b)(1) which would impact the owner/beneficiary's ability to rollover these distributions.

In addition, staff pointed out that the IRS position in Ltr.Rul.9010007, although not authority, was that this pattern of distribution/rollovers was permissible without the imposition of the excise tax. Reg.Sec.1.408-4(b)(4), which deals with tax years beginning prior to December 31, 1977, contains a rollover frequency limitation. There is no similar provision for years beginning after that date. *Note: Sec. 408(d)(3)(B) limits the use of the sixty-day rollover period provided in Sec. 408(d)(3)(A) to once in a twelve-month period.*

Other practitioners have used TIPS to verify their own research or to speed the research process. This was the situation with a practitioner who has, primarily, a tax practice for high net worth individuals. The practitioner first called TIPS when she was working in an unfamiliar area—one in which she was unlikely to work much in the future—and was shortly to meet with some tax attorneys. She says that even though she was not making the final decision, she needed to be well-versed on applicable Code sections. TIPS staff not only helped the practitioner find the right answers, but helped her narrow the issues to those that really needed to be addressed.

Calling TIPS not only cut out hours and hours of research for this practitioner but gave her confi- →

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dence she was on the right track. "You cannot always call a colleague," she says, "but sometimes you need somebody to let you know there are other issues involved, and that if you do something a certain way, you will end up with another problem. TIPS is a great benefit to a small practitioner."

Some small practitioners have called TIPS when they are confronted with unusual transactions, and after doing some preliminary research would like to obtain a second opinion. Others call when faced with new technical issues, so they can get some guidance at the beginning of their research. In the past, many practitioners have relied on their personal networks of CPA colleagues and tax attorneys in specialized areas for help with serious problems. Now they can call TIPS and find it an efficient way to obtain answers needed to provide high-level service to clients. Let's look at two examples.

A tremendous help to a sole practitioner

I have been a sole practitioner for about six years, and focus on three core practice areas: individual income taxes, small businesses, and real estate investors. I try to provide extra value to clients by encouraging them to call me while they are working on business and tax issues, instead of their waiting until the end of the quarter or year, when planning opportunities may have closed.

I first used TIPS during the past filing season when researching an issue for a new client in the music recording industry. Being unfamiliar with this industry, I had obtained information on the accounting methods commonly used and read the industry MSSP guide. When preparing the tax return, however, I was confronted with the amortization of intangibles for master sound recordings. After spending many hours researching and consulting with CPA colleagues, I was unable to find any conclusive authority for the proper treatment.

I called TIPS hoping to at least get some guidance on where to continue searching, if not the answer to the problem. My call was answered by someone who first listened to all of the relevant facts, then asked a few questions to ensure he understood the issue.

We searched the various data bases on the TIPS system for relevant cases, regulations, and analysis that would correctly address the issue. We came across several references indicating how the problem should not be handled, but, ultimately, did find the appropriate treatment.

As we discussed the problem, I realized from the questions asked and the comments made that I was working with an experienced tax professional. At the end of the call, he made sure I was in agreement with the results and that my question had been answered to my satisfaction. He later FAXed me some support information from the searches.

I have made four other inquiries through TIPS since then. On one occasion, staff even called me back the next day to identify additional Revenue Rulings that had come to light when discussing my problem with a colleague. I use TIPS as a supplement to my own research. The hours of operation are convenient, and the cost of service is reasonable. TIPS is a tremendous help to a sole practitioner.

—by **Joseph Nesi, CPA,** *9 Calvin Place, Metuchen, New Jersey 08840, tel. (908) 548-5725, FAX (908) 548-1873*

Gaining a competitive edge

In this competitive marketplace, it is nice to know you have access to a tool that can give you an edge. Recently, our firm was able to enhance its tax knowledge in a new client area because TIPS consultants helped answer questions, verified research, and put us in touch with specialists who assisted us with some complex technical issues.

Our firm had an opportunity to perform a 1940 Investment Act (mutual fund) audit earlier this year. This was outside our core area of expertise, and we had questions concerning taxes, requirements, and rules. After researching the tax issue, we wanted an outside opinion to confirm our findings.

I had visited the AICPA Harborside offices a few months before and, on a tour of the facilities, had an opportunity to ask the TIPS staff some technical questions. I was impressed with the in-depth knowl-

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Editor: Graham G. Goddard

edge. TIPS staff members aren't right out of school—they've had lots of experience covering a broad range of tax inquiries. I left the AICPA offices confident in their abilities.

So when we had the opportunity to perform this mutual fund audit, Kashyap Bakhai, a partner at our firm, called TIPS for an opinion. One question dealt with a 3 percent fund redemption fee and the type of income for which it qualified under the Internal Revenue Code. We finalized our opinion after lengthy research but, as I mentioned before, wanted some consultation regarding our findings.

The TIPS consultant researched the question and confirmed our conclusions, and suggested that for a second opinion we call someone from a list of practitioners who were specialists in that field.

What impressed me most about TIPS was that staff not only answered our questions quickly and accurately, and verified the solutions we had resolved on the issue, but also provided a referral for another consultant regarding our research. In addition, TIPS staff verified a potential problem we had identified, which enabled us to subsequently call the client's lawyers and alert them to the issue.

The law firm immediately researched the issue and agreed with our conclusions. Originally, the lawyers were opposed to our being engaged to perform the mutual fund audit because we did not have heavy industry experience. This action gained us enormous credibility with them.

While TIPS does not replace a firm's own diligent tax research, we have found it extremely helpful to have questions answered and opinions verified over the phone by a TIPS consultant—particularly in areas outside our firm's core of expertise. TIPS staff provides an excellent sounding board, and the moderate cost of the service can be passed on to clients. ☑

—by **Tony Argiz, CPA,** *Morrison, Brown, Argiz & Company, 9795 South Dixie Highway, Miami, Florida 33156, tel. (305) 667-3500, FAX (305) 661-9542, E-MAIL ARGIZ@MBA-CPA.COM*

How to Access TIPS

The AICPA tax information phone service (TIPS) may be accessed by dialing (900) 555-TIPS. If you have a MasterCard or Visa card, you can call TIPS at (201) 938-3883. Hours of operation are 9:00 am to 5:00 pm, Monday through Friday. The cost is $2 per minute.

For general information about TIPS, call (201) 938-3880.

PCPS Advocacy Activities

Membership survey

Private companies practice section (PCPS) member firms will be receiving a new membership survey this month. The survey will gauge member needs and viewpoints on critical issues such as standards overload and PCPS activities, programs, and products. The survey should be returned by November 15, so the results can be tabulated and used in 1997 planning. This is an opportunity to voice your concerns to the PCPS leadership and the AICPA board of directors.

Discrimination policy

The AICPA board of directors issued a policy against discrimination based on firm size. If your firm has experienced client loss due to size discrimination, notify PCPS. Examples will be used in an educational brochure to educate and advise nonCPAs on this sensitive issue. Call Barbara Vigilante, tel. (800) CPA- FIRM.

Information about the *Practicing CPA*

Distribution policy. Since September 1991, the Practicing CPA has been published by PCPS. One copy is sent automatically to each practice unit and to those members who have specifically requested it. If you would like to receive a copy, send your name and address to AICPA Membership Administration, Harborside Financial Center, 201 Plaza Three, Jersey City, New Jersey 07311-3881.

Request for articles. The main source of material for articles is practitioners. If you have ideas for new methods, techniques, and procedures that make managing an accounting practice easier and more profitable, and would like to share your experiences with your peers, just contact the editor at the above address, tel. (201) 938-3796, FAX (800) FAX- 1112. ☑

Update on Accountants Forum Article

Last month's *Practicing CPA* featured an article by Janet Caswell concerning her use of Accountants Forum ("A Funny Thing Happened Once I Got to the Forum"). Since publication of the article, a considerable number of *Practicing CPA* readers have expressed interest in accessing the information on the Forum.

Accountants Forum is available through CompuServe, and a free CompuServe connection kit is available from the AICPA. To obtain the free kit, call (800) CPA-FIRM. ☑

Delegation and Strategic Thinking Go Hand-in-Hand

CPA firms face unprecedented challenges to their profitability today, in the form of increased competition, changed client expectations regarding service value and knowledge demands, specialization requirements, and a host of other issues. Meeting such challenges requires strategic thinking and planning. Yet many firms are so busy meeting the day-to-day demands of client service that they do not take the time to focus on what should be their number one priority—their future.

An annual strategic planning session is an excellent first step toward mapping the firm's future and committing to spend on-going time focusing, adapting, marketing, and developing new skills. That crucial ongoing time can only be available if there is another commitment, however—a commitment to delegation of work, responsibility, and authority within the firm.

Delegation provides a way for people and organizations to concentrate their energies on those areas where they have a competitive advantage, and to accomplish remaining tasks through the efforts of others. Effective delegation can result in improved productivity and cost-effectiveness, increased billings, more opportunities for partners to focus on priorities, and improved client service.

Client service is improved through delegation because as staff members assume more responsibility for client work, they obtain a better understanding of what needs to be done and when. The client then benefits by there being other people in the CPA firm who can answer questions and solve problems, even in the absence of the partner.

Delegation can also ensure that the workload is more evenly distributed. Uneven distribution can lead to people becoming overwhelmed, to their becoming unwitting bottlenecks in the work flow and the cause of missed deadlines and costly mistakes. The overriding issue should be timely, responsive client service. The effective delegation of work can help you achieve this.

Decide what to delegate

Some of the work delegated will necessarily be routine tasks, but this should not be the only type of work assigned. Staff want additional responsibility, challenging assignments, and the opportunity to interact directly with clients. Obviously, work that requires the unique talents or experience of a partner or senior staff cannot be delegated, but much else is suitable. One criterion for selection should be whether the responsibility and authority for the successful completion of the job can also be delegated.

Although it is preferable to delegate a whole project, this is not always practical or realistic, and it is important to establish what levels of responsibility and authority are being delegated.

The partner on the engagement is ultimately responsible to the client for the successful, timely completion of the work, and should make sure that he or she is kept informed of the progress or problems on any engagement. It is especially important in initial training to establish at what point staff should have work reviewed. In addition, the partner or senior should make certain the staff member understands what is expected and is informed of any changes that affect the work.

Delegated work should be tracked so it does not become delayed or lost in the system and result in missed deadlines. Setting priorities, balancing the workload, and good communication are essential elements of the follow-up needed until delegated work is completed.

Partners and senior staff should be evaluated on their success in delegation and training. A gross profit report (GPR) is a good way to measure not only the profitability of each engagement but the effectiveness of delegation.

The GPR should calculate gross profit on a client engagement by offsetting the fully loaded cost of employees (total employee compensation cost plus benefits divided by expected chargeable hours) utilized on the engagement against the accrual fees for that engagement. After adjusting the gross profit by write-up or write-down of accrual fees, employee costs incurred in the engagement will be the final gauge of whether the most cost-effective staff were utilized on the engagement.

Training and effective delegation will provide staff with opportunities for challenge and personal growth, leading to high levels of work satisfaction, and increased production and client satisfaction. Ultimately, partner personal growth, morale, and quality of life are enhanced by effective delegation. It is indispensable in providing the crucial time needed for strategic thinking and planning for the firm's future. ☑

—by **Sheryl L. Barbich,** *Barbich Associates, 5001 Commercenter Drive, Suite 350, Bakersfield, California 93309, tel. (805) 327-8634, FAX (805) 631-0244*

Editor's note: The above comments are extracted from Ms. Barbich's book, The Quick and Easy Guide to Delegation (Key to Profitability and Growth), *published by the AICPA. To purchase the book, product no. 090414, cost $20 (members), $22 (nonmembers), call the AICPA order department,* (800) TO-AICPA. *Ask for operator PC.*

Your Voice in Washington

Subchapter S corporation reform
As reported in last month's *Practicing CPA*, the AICPA collaborated with the American Bar Association to have S corporation reform provisions included in the Small Business Job Protection Act of 1996 which President Clinton signed into law on August 20. Provisions that will help modernize subchapter S corporations are:
- ☐ Increasing the allowable number of shareholders from thirty-five to seventy-five.
- ☐ Permitting certain financial institutions and tax-exempt organizations to own S corporation stock.
- ☐ Permitting certain lending institutions to hold safe harbor debt.
- ☐ Expanding the types of trusts that can own S corporation stock.
- ☐ Permitting an S corporation to own up to 100 percent of a C corporation.
- ☐ Permitting an S corporation to own 100 percent of an S corporation.

Pension simplification
The Small Business Job Protection Act of 1996 also included pension simplification provisions that the AICPA advocated earlier this year.

Of note are provisions
- ☐ Extending 401(k) plans to tax-exempt employers and state and local governments.
- ☐ Simplifying the nondiscrimination rules for 401(k) and matching contributions.
- ☐ Repealing the five-year averaging requirement, which simplifies the taxation of distributions and encourages the retention of the account balance for retirement.
- ☐ Creating a pension plan for use by small business that is free of the multitude of reporting requirements needed to qualify for tax savings.
- ☐ Changing the definitions of highly compensated employees and leased employees.
- ☐ Repealing the family aggregation rules.
- ☐ Eliminating the special aggregation rules for plans maintained by self-employed individuals.
- ☐ Establishing the normal retirement age as the Social Security retirement age.

In addition, the Small Business Job Protection Act of 1996 provides an opportunity for individuals to withdraw money from retirement plans such as 401(k) plans and IRAs. As of 1997, the current 15 percent penalty will be waived for withdrawing more than $155,000 or $775,000 for lump sums. This provision expires on January 1, 2000. ☑

Conference Calendar

National Auto Dealership Conference
October 21–22—The Pointe Hilton at South Mountain, Phoenix, AZ
Recommended CPE credit: 16 hours

National Governmental Training Program
October 21–23—Sheraton Music City, Nashville, TN
Recommended CPE credit: 24 hours

Tax Planning with Retirement Assets
October 30—JW Marriott, Washington, DC
Recommended CPE credit: 8 hours

National Federal Tax Conference
October 31-November 1—JW Marriott, Washington, DC
Recommended CPE credit: 16 hours

Credit Unions Conference
November 6–8—Hotel Del Coronado, San Diego, CA
Recommended CPE credit: 16 hours

National Conference on Banks & Savings Institutions
November 7–8 (Nov.9 optional workshop session)—Grand Hyatt, Washington, DC
Recommended CPE credit: up to 24 hours

Annual Conference on the Securities Industry
November 12–13—Vista Hotel, New York, NY
Recommended CPE credit: 14 hours

National Business Valuation Conference
November 17–19—The Pointe Hilton Resort at Tapatio Cliffs, Phoenix, AZ
Recommended CPE credit: 16 hours

Fall Tax Division Meeting
December 4–6—Walt Disney Swan, Orlando, FL
Recommended CPE credit: 8 hours

National Fraud Conference
December 4–6—The Mirage, Las Vegas, NV
Recommended CPE credit: 19 hours

National Construction Conference
December 5–7—MGM Grand, Las Vegas, NV
Recommended CPE credit: 19 hours

Conference on Current SEC Developments
December 10–11—Grand Hyatt, Washington, DC
Recommended CPE credit: 17 hours

To register or for more information, contact AICPA Conference Registration, tel. (800) 862-4272.

Some Thoughts on Providing for Partner Retirement

The debate over the optimum form of providing for partner retirement is a continuing one. I believe the optimum form is a fully funded, tax-deductible plan covering only owners. It provides benefits equal to at least 50 percent of the highest three-year average out of the last ten years' earnings for the life expectancy of the partner at retirement age. Partners are fully vested at age sixty, and the plan does not reduce active partners' earnings at any time during the funding process. At our firm, unfortunately, we have not been able to discover any way to achieve many of these desirable attributes.

Perhaps the most basic decision a firm must make regarding partner retirement is whether to create a funded retirement plan at all. We have all heard the argument that funding a retirement plan out of current earnings is nothing more or less than buying the ownership interest twice—first upon admission to partnership, and again when partners' earnings are reduced to fund the plan. The other side of the argument is that creating an unfunded liability to pay future retirement benefits saddles future partners with an obligation for which they may not have bargained.

Having decided to establish a funded retirement plan for partners, the next step is to determine the amount and duration of benefits to be paid. If the benefits are in lieu of accrual basis capital repayment and goodwill, they are typically higher since, traditionally, retiring partners consider they are selling their ownership interest back to the firm upon retirement. Only after deciding the probable size of the future retirement liability is it appropriate to grapple with questions of vesting, funding vehicles, or tax deductibility.

At our firm, we have moved from a solely non-qualified deferred compensation plan funded with life insurance designed to provide 50 percent of estimated future benefits to a combination deferred compensation and age-weighted 401(k) plan. Our strategy is to maintain the 50 percent prefunding target and to gain some tax advantages as well.

Firms considering establishing a funding vehicle for a non-qualified partner retirement plan would do well to look at a new service being offered by ITT/Hartford Insurance Company and sponsored by PCPS. This service, to be marketed to firms soon, will provide an efficient funding mechanism, as well as assistance with custom plan design.

Our profession is undergoing significant changes in how we do business and what services we will be called upon to provide. Removing one uncertainty about how we will pay our retiring owners is good business sense and should be a top priority in all firms. ☑

—by **Will T. McQueen, CPA,** *Elliot, Davis & Company, 870 S. Pleasantburg Drive, P.O. Box 6286, Greenville, South Carolina 29606-6286, tel. (803) 242-3370, FAX (803) 232-7161*

Questions for the Speaker (Brochures and newsletters)

Attending conferences, such as the AICPA Practitioners Symposium, is a great way for practitioners to exchange ideas with peers, ask questions, and find out how others solve problems and manage their practices. A participant at one conference asked a panel of practitioners and consultants to comment on firm brochures and newsletters.

Troy A. Waugh, CPA, a Brentwood, Tennessee, consultant to firms, says that if he had to make a choice, he would opt for the newsletter. Mr. Waugh does not think the first communication is going to obtain a new client and believes the value of a newsletter is that it can reach prospects frequently.

Steven Weinstein, CPA, a practice management consultant in Stony Creek, Connecticut, says every firm needs a descriptive brochure that can be mailed to prospects and handed out at meetings and seminars. He does not believe a brochure will generate a lot of business and says it does not need to be an expensive production.

Mr. Weinstein says it takes a lot of time and effort to produce a good newsletter. His recommendation is to "keep it short" and not become involved in a multi-page creation. Instead, write a nice one-page letter containing one or two tips. Mr. Weinstein thinks people are bombarded with mailings today, and says it is best to hit them with a high-visibility product.

Lucy R. Carter, a Goodlettsville, Tennessee, practitioner, says, "We don't write our own newsletter. We are members of an association and mail its newsletter to clients quarterly. The results have been interesting. The newsletter is targeted to our market niche (health care) and we have obtained one new client as a direct result of it. Another person to whom we sent the newsletter liked it so much, he asked for all the back issues."

Carter, Young, Lankford & Roach views newsletters and brochures as a resource to be used in meetings with potential clients. The firm assembles a package of descriptive materials, including the brochure and the most recent newsletter, which it gives to prospects at these meetings as part of its marketing efforts. ☑

Secrets for Increasing Referral Business

Roughly one-half of your new business should come from present clients, either when they need help with new problems or when they refer you to their friends, families, and associates. Referral sources who are not your clients should account for at least another quarter of your new business.

Success in business today depends on partnerships, on people working together to build business. It therefore behooves you to identify your most promising referral sources and make them an important part of your life. When you do, you will discover new marketing opportunities that you might never have pursued on your own. As a marketing director, I am often asked the following questions about cultivating referral sources.

How do I get to know good referral sources?
First, you need to determine what types of referral sources would be most valuable to your firm. If you specialize in certain niche areas, for example, you will wish to meet people with similar interests. This involves attending their industry functions and spending time where they gather. It means taking on assignments that will put you in touch with other professionals who share your enthusiasm for certain areas of business, and understanding and capitalizing on industry trends.

Top referral sources are often active in the community. They frequently receive publicity in the business sections of local newspapers, or you might come across them serving on high-profile boards of directors or giving speeches to prominent business groups.

To get to know such people, some of the more confident networkers simply write a letter or make a phone call and ask for a meeting. Many people are flattered by and receptive to this direct approach. If you decide to make a cold call to introduce yourself, mention any mutual friends and business associates you have. This often makes people more relaxed and friendly.

The easiest way to get to know more referral sources is simply to ask business colleagues to make an introduction over lunch or in some other informal setting. Meeting new people can be orchestrated in a group situation as well.

For example, the partners in your firm could host a late-afternoon "get-acquainted" session with four or five members of a local bank. After snacks and refreshments, each group could take a few moments to give an overview of its organization, followed by people sharing special interest areas. Usually, several participants will find common ground and a real potential for referring business back and forth.

How do I organize my list of referral sources?
One of the best ways to organize your growing list of referral sources is to group them by category, such as industry, association, and so on. You should then place two or three names under each heading. You don't need many names because the idea is to cultivate satisfying business relationships with a few really good referral sources.

The next step is to see whether any category on your list seems under-represented or might be beefed up. If this is the case, get in touch with associates who have connections in those areas and ask them to arrange introductions.

Expect the names on your list to be constantly changing. Relationships with referral sources are dynamic. As you meet new people, you will discover new opportunities for business development, and it will be readily apparent where you need to direct your attention.

How can I keep my referral sources happy?
Obviously, you should swing business their way whenever possible. If you don't have an immediate opportunity to do so, be creative. There are many ways to keep your relationships with referral sources satisfying.

Your value as a CPA is based on your specialized knowledge. Share this knowledge whenever possible to improve someone else's situation. When you make a special effort to help someone with a problem, this also gives you a chance to show your expertise and increases that person's confidence in referring you to others.

If you become involved in an exciting marketing program, look for ways to include your referral sources. For example, if your firm is holding a seminar on a particular topic, invite qualified referral sources to speak on certain elements of it. Similarly, if you are interviewed by a local business reporter, tell the reporter about someone in your network who also has knowledge about the subject at hand. There really is no limit to the number of things you can do to let your referral sources know they are important to you.

The fastest way to kill referrals is to lower your service standards. If referral sources hear from clients or others that you deliver less-than-top-notch service, they will hesitate or refuse to refer business your way. In today's competitive business environment, excellence and professionalism are expected. CPAs who cultivate happy clients and satisfying relationships with other professionals will ultimately win the most referrals from the business community. →

What reason do I give for getting in touch with referral sources?

If your interaction with referral sources is limited to a quick phone call once a quarter, it is time to examine the relationship. You'll get much more out of a relationship that is based on common interests and the pleasure of working together. Sending business back and forth will follow naturally.

Keep your list of referral sources handy and review it once a month. Find ways to weave the people on the list into your work and leisure routine. If you throw a Super Bowl party, for example, see who on the list might like to be invited, and try to draw from your network when selecting a golf or tennis partner.

Send your firm's newsletter to the people on your list with a personal note attached. And if your firm has produced some exciting marketing materials, share them. If referral sources recognize that you are an active marketer, they are more likely to value the relationship.

Another reason for keeping in touch is to make helpful introductions—introducing a banker to an attorney with similar interests, for example. Anything you can do to help your referral sources become more effective in their work or to expand their network qualifies as a good reason for keeping in touch with them.

Some of the most successful business developers I have met regularly gain new business from referrals that are based on quality relationships with the right sources. You, too, can make a dramatic impact on your firm's bottom line by identifying and cultivating the right referral sources. Once you have honed your list to a select few, find creative and fun ways to include them in your business and leisure activities. ☑

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